

EXHIBIT AR

[PUBLIC VERSION]

Message

From: Caitlin Long [caitlin@custodiabank.com]
on behalf of Caitlin Long <caitlin@custodiabank.com> [caitlin@custodiabank.com]
Sent: 12/21/2022 1:11:40 AM
To: Caitlin Long [caitlin@avantibank.com]
CC: Crouch, Ross [ross.crouch@kc.frb.org]; judith.hazen@kc.frb.org; Baxter, Ashle [Ashle.Baxter@kc.frb.org]; Mike Borges [mike.borges@avantibank.com]; Zev Shimko [zev@avantibank.com]; Tanya McCorquodale [tanya.mccorquodale@custodiabank.com]; Maura Liconte [maura.liconte@custodiabank.com]; Ryan Gotschall [ryan.gotschall@custodiabank.com]
Subject: Re: Custodia
Attachments: AS SENT Fed Remediation Plan 12-20-22.pdf; CONFIDENTIAL EXHIBIT A: FRBKC Remediation Tracking Log_12202022.xlsx; CONFIDENTIAL EXHIBIT B: Audit and Internal Control Policy_12_20_2022_v 1.4.pdf; CONFIDENTIAL EXHIBIT C: Audit Independence Plan 12_20_2022 v 1.0.pdf; CONFIDENTIAL EXHIBIT D: Crowe BSA_AML and OFAC Program Assessment - Summary and Progress Report 10-4-2022.pdf; CONFIDENTIAL EXHIBIT E: New BSA Officer Resume.pdf; CONFIDENTIAL EXHIBIT F: BSA-AML Risk Assessment.xlsx; CONFIDENTIAL EXHIBIT G: Business Impact Analysis - Critical+High Applications.xlsx; CONFIDENTIAL EXHIBIT H: Asset_Liability and Liquidity Policy_09_12_2022_v1.2.pdf; CONFIDENTIAL EXHIBIT I: Support for Financial Forecast -- Assumptions Related to Digital Assets.pdf; CONFIDENTIAL EXHIBIT J: Changes to Bank Fees Procedure.pdf; CONFIDENTIAL EXHIBIT K: Capital Planning Policy_10_18_2022_v 1.4.pdf; CONFIDENTIAL EXHIBIT L: Custodia Board Self-Evaluation Survey 2022.pdf

Hi all -- attached is Custodia's remediation plan, with attachments. I'll separately send the next batch of Board minutes and materials (either tonight or tomorrow).

As usual, I'm attaching to an old thread to ensure that these make it to you encrypted and covered by our confidentiality request.

Happy new year, and we'll speak again on January 12 at our next bi-weekly meeting.

Cheers

On Fri, Dec 16, 2022 at 4:52 PM Caitlin Long <caitlin@custodiabank.com> wrote:

Hi all -- attached is Custodia's response letter to the Wyoming Division of Banking with attachments, which we submitted today. Note you already have some of the attachments, but many are new.

As usual, I'm attaching to an old thread to ensure that these make it to you encrypted and covered by our confidentiality request.

Have a great weekend, and we'll send you more docs on Tuesday. Cheers

On Tue, Nov 22, 2022 at 8:26 AM Caitlin Long <caitlin@custodiabank.com> wrote:

Hi Ross -- 3 more documents are attached, which Cleary sent via the secure portal to Jeff Imgarten late last night. One is a note on FTX (where to look for potential contagion effects into the traditional banking system, why that couldn't happen at Custodia, etc) and the other is a policy paper). I'm attaching the an old email thread again to ensure they make it to you encrypted and are covered by our confidentiality request. Note that Cleary didn't fix formatting before sending them to you (not sure why), but the substance is all there. Cheers

On Fri, Nov 18, 2022 at 11:51 AM Caitlin Long <caitlin@custodiabank.com> wrote:

Hi Ross -- attached is the latest batch of documents (attached to an older thread to ensure the files are encrypted in transit to you and covered by the request for confidential treatment). You should receive 20 files in total. I look forward to walking you through the remediation tool next week. Have a great weekend!

On Tue, Oct 4, 2022 at 10:53 PM Caitlin Long <caitlin@custodiabank.com> wrote:

Hi Ross -- here's the next batch of Board minutes (8 files in total). Note that Crowe spent an hour with our Board today (the Crowe slides are attached), and the Board materials from today's meeting also include the Enterprise Risk Management Committee's summary of the Business Impact Analysis; the updated Cybersecurity, Disaster Recovery and BSA/AML risk assessments; and pen test issue tracking. The Board asked Crowe if it thought we were ready to activate the charter by moving the internal deposit, and Crowe's answer was yes. All executives (round robin) unanimously agreed during both the ERM and Board meetings that we're ready for that, subject to completion of the 3 remaining items on the punch list. The punch list included in today's Board materials is already outdated, and we expect to have a material update for you during our check-in on Thursday. Let us know if you have questions in the meantime -- I know you were looking for some of these items, and may want more detail. Cheers

On Wed, Sep 14, 2022 at 1:28 PM Caitlin Long <caitlin@custodiabank.com> wrote:

Hi Ross -- here's the next batch of Board and Committee items, as well as a copy of the certificate of authority letter from the Wyoming Division of Banking. Please let us know if you can open the files -- the Board and Committee files are saved as Adobe Portfolios because they're collections of pdf files. The Executive Committee file is encrypted, and I'll separately email you the p@sswrd. Thanks

On Mon, Sep 5, 2022 at 9:45 AM Caitlin Long <caitlin@custodiabank.com> wrote:

Oops -- one more attached, for a total of 13 in today's delivery. Thanks

On Mon, Sep 5, 2022 at 9:36 AM Caitlin Long <caitlin@custodiabank.com> wrote:

Hi all -- attached is the latest batch of Board minutes and materials (I'm attaching it to a prior email thread again, to ensure it goes through our usual encrypted channel). You should receive 12 attachments.

Ross, for the document production request due tomorrow, we chose to send these to you in the normal manner rather than wait to send them to you in the batch tomorrow. That way, you should have a complete record of all Board materials and minutes via these regular emails. If you want us to duplicate all of them in the batch tomorrow, please let us know.

Thanks

On Mon, Aug 22, 2022 at 9:50 AM Caitlin Long <caitlin@custodiabank.com> wrote:

Good morning all -- sending you the latest batch of Board documents (and attaching them to an old thread to ensure they go over our secure connection). You should receive 10 attachments. Thanks

On Wed, Aug 10, 2022 at 8:49 PM Caitlin Long <caitlin@custodiabank.com> wrote:

Hi all -- I'm responding to a previous thread to ensure this email is captured by our secure transmission channel.

Ross -- as discussed, we still owed you the complete list of procedures and it is included below. We'll update you tomorrow, but we decided to push back applying for our certificate of authority to operate by a few weeks so the team could focus on responding to the new AI request letter and preparing for the upcoming exam. We shared this with our Board last week and they agreed. Meanwhile, the Foundry testing is going well and it remains on track to meet the original timeline. Look forward to speaking tomorrow. Cheers

Procedure Name	Department	Timing
Customer Onboarding	Compliance	Launch
OFAC Sanctions Investigation	Compliance	Launch
Transaction Monitoring	Compliance	Launch

SAR Filing	Compliance	Launch
Recordkeeping	Compliance	Launch
National Security Letter	Compliance	Launch
Know Your Customer	Compliance	Launch
Ongoing Screening and Monitoring	Compliance	Launch
Corporate Account Application Review	Compliance	Launch
Customer Identification Program	Compliance	Launch
Beneficial Ownership	Compliance	Launch
Customer Due Diligence	Compliance	Launch
Enhanced Due Diligence	Compliance	Launch
Advertisement	Compliance	Launch
Information Sharing 314(b)	Compliance	Launch
Information Sharing 314(a)	Compliance	Launch
Complaint Policy	Compliance	Post-Launch
CEO Succession Planning	Executive	Post-Launch
Evaluation of CEO & Individual Directors (at least annually)	Executive	Post-Launch
Disbursements	Finance	Launch
Financial Close and Reporting	Finance	Launch
Asset Capitalization	Finance	Launch
Audit	Finance	Launch
Correspondent Banking	Finance	Launch
Interest Rate Risk	Finance	Launch
Investment	Finance	Launch
Physical Security	Finance	Launch
Recruiting and Onboarding	Human Resources	Launch
Compensation, Performance Management and Employee Development	Human Resources	Launch
Holiday, Vacation and Leave	Human Resources	Launch
Corrective Action	Human Resources	Launch
User Provisioning / Access Management	InfoSec	Launch
User Deprovisioning	Infosec	Launch
Device Imaging / Setup	Infosec	Launch
Security Incident Response	Infosec	Launch
Change Management - Production Infrastructure	Infosec	Launch
Change Management - General	Infosec	Launch
Disaster Recovery	Infosec	Launch
Vendor Document Review	Legal	Launch
Legal Matter Intake and Management	Legal	Post-Launch
Corporate Matter Management	Legal	Post-Launch

Subpoena/Search Warrant/Levy/Garnishment Review	Legal	Post-Launch
Outside Counsel Engagement	Legal	Post-Launch
CRB - Create Account Subledger	Operations	Launch
CRB - Manual Wire	Operations	Launch
CRB - Account Transfer	Operations	Launch
CRB - Access Reports	Operations	Launch
Create Customer	Operations	Launch
Create Account	Operations	Launch
Account Transfer	Operations	Launch
Large Dollar Approvals	Operations	Launch
Create Bank User	Operations	Launch
Repair Queue Management	Operations	Launch
Customer Support	Operations	Launch
Customer Fee Calculation	Operations	Launch
CRB - Create ACH Transaction	Operations	Post-Launch
CRB - Close Subledger Account	Operations	Post-Launch
Create ACH Originator	Operations	Post-Launch
Create ACH Transaction	Operations	Post-Launch
Authorize ACH Transaction	Operations	Post-Launch
Modify Customer Details	Operations	Post-Launch
Modify Account Details	Operations	Post-Launch
Return ACH Transaction	Operations	Post-Launch
Cancel ACH Transaction	Operations	Post-Launch
Authorize Return/Cancel of ACH Transaction	Operations	Post-Launch
Wire Authorization	Operations	Post-Launch
Close Account	Operations	Post-Launch
State Escheatment	Operations	Post-Launch
Vendor Risk Assessment	Risk Management	Launch
Critical Vendor Monitoring	Risk Management	Launch
Physical Asset Inventory	Tech/Infosec	Launch
Software Inventory	Tech/Infosec	Launch
Patch Management	Tech/Infosec	Launch
Operational Incident Response	Technology	Launch
Change Management - Code Review	Technology	Launch

On Fri, Jul 22, 2022 at 7:18 AM Caitlin Long <caitlin@avantibank.com> wrote:

Hi Ross, Judith & Ashle -- attached are the six documents you requested in the document production request. Kindly confirm receipt. Two items of note:

(1) Also included is a document that describes the traditional banking experience of our team members (excluding Zev and me, as our experience is investment banking). Of note, the chair of our Enterprise Risk Management Committee (Ben Bauder, our Head of Information Security) previously spent five years as a bank examiner at the Wisconsin Department of Financial Services before joining Zions and then Custodia.

(2) Custodia is developing a customer risk rating methodology (CRR) as part of the onboarding process and assessment of its customers. The methodology will incorporate specific factors (aka risk categories) when assessing a customer's risk profile. These risk categories will be utilized in determining the customer's overall risk profile as any of the following: High, Medium or Low risk. In determining a customer's risk profile, Custodia's CRR will include the following risk categories as they relate to the customer relationship: Products and Services, Customer or Entity type and Geographic Locations.

Please contact us if you have questions. Cheers

We hereby request confidential treatment for the Confidential Attachment and Confidential Exhibits (the "Confidential Information") in accordance with the Freedom of Information Act (5 U.S.C. § 552(b)(4)) and Section 261.17 of the Board of Governors' Rules Regarding Availability of Information (12 CFR § 261.17). The Confidential Information contains confidential business, commercial and financial information relating to Custodia, the disclosure of which would cause competitive and other injury to Custodia. As a result, Custodia believes that the Confidential Information is privileged or confidential within the meaning of, and exempt from disclosure pursuant to, 12 C.F.R. § 261.15(a)(4). Custodia has kept the Confidential Information confidential, and believes that the Confidential Information is not publicly available from any other source.

We also respectfully request that if, notwithstanding the foregoing, the Reserve Bank or the Board of Governors should determine preliminarily to make available to the public any part of the Response, it inform us prior to doing so in order that we may discuss the matter further.

The requests set forth in the preceding paragraphs also apply to any memoranda, notes, transcripts or other writings that are made by, or at the direction of, the Reserve Bank or the Board of Governors (or any other governmental agency) and that incorporate, include or relate to any of the matters discussed in this letter.

On Wed, Jul 20, 2022 at 5:44 AM Caitlin Long <caitlin@avantibank.com> wrote:

Sorry -- here's one more. You should be all caught up on Board minutes/materials now, through yesterday's Board meeting. Cheers

On Wed, Jul 20, 2022 at 5:26 AM Caitlin Long <caitlin@avantibank.com> wrote:

Hi all -- here's our next batch of documents. Ross -- if we don't connect before you leave for vacation, have a great one! Cheers

On Wed, Jun 29, 2022 at 9:05 PM Caitlin Long <caitlin@avantibank.com> wrote:

Hi Judith, Ross & Ashle -- attached is the latest batch of materials. We look forward to our bi-weekly catch up tomorrow. Cheers

Custodia requests confidential treatment for this e-mail and the attachments under FOIA Exemption (4), as the status of Custodia's master account and membership applications and related topics discussed in the attachments are sensitive competitive information. If the Board should receive a FOIA request seeking these materials, we request that Custodia be informed prior to producing them so that it may further support its request for confidential treatment.

On Sat, May 14, 2022 at 9:11 AM Caitlin Long <caitlin@avantibank.com> wrote:

Hi all -- as mentioned in my reply sent on your secure email portal yesterday, attached is the latest round of Board materials. A few items are of note:

- this batch includes a lot of compliance materials, including (among other things) the BSA/AML policy. The Board approved the policy at its May 11 meeting. Please note that a compliance presentation analyzing the OCC consent order for Anchorage Bank is attached to the April 27 Board meeting minutes.
- the Board's BSA/AML Committee was formally constituted on May 11 and our BSA officer has already met with both that committee chair and the Audit Committee chair to start the formal Board oversight of our BSA/AML compliance program. Note Crowe has reviewed and provided comments on the BSA/AML policy -- we waited to incorporate Crowe's feedback before presenting it to the Board on May 11. The policy is undergoing continuous review and may need to be revised again before we go live based on the outcome of Crowe's broader compliance program review (next bullet point), and we let the Board know that.
- Crowe will likely start its testing of our compliance program in late May, and their engagement will last 3 weeks. Thereafter, they will provide an independent assessment and we will share that with you and the Wyoming Division of Banking.
- We are still on track from a technology build perspective to apply for our certificate of authority to operate in ~late June (as testing is slightly ahead of schedule) and we are in regular consultation with the Division to check items off their requirements list. We're not yet ready to set a firm target opening date though -- among other things, we need to finish the integration of Foundry (which is going well so far) and we won't launch until the compliance platform is ready. We are very focused on ensuring that the compliance platform operates effectively from day one. The Division has 30 days to respond after we apply for the certificate of authority, but they said they do not expect it to take that long given that we're working together closely to check off the requirements in advance.
- also included in this batch is a discussion with our Board of our launch and post-launch customer plan (please see May 11 Board materials). We will go slow by design, and the Division is on board with that.
- as per my last email, please note the revised versions of the vendor management policy and risk management methodology (as adopted by the Board on April 13) are attached to the April 13 Board meeting minutes.

We look forward to receiving your feedback next week. Have a great weekend!

On Thu, Apr 21, 2022 at 8:03 PM Caitlin Long <caitlin@avantibank.com> wrote:

Hi all -- attached are Board and Committee meeting materials + minutes for mid-March through mid-April. As I discussed with Judith today, the Board made changes to our risk management methodology and vendor management policy at its April 13 Board meeting. Attached are the drafts -- the final versions will show additional changes made by the Board during the Board meeting that will come through in our next batch of documents (as attachments to the minutes for that meeting). If you'd like to see final versions or dig into this before then (or talk to Chuck or Ben about them), let us know. In sum, the Board reduced vendor risk appetite from moderate to moderate-low, reduced compliance risk from moderate to moderate-low, and reduced credit risk appetite from moderate to low.

Also, we saw the OCC's enforcement action today against a competitor of ours that holds an OCC trust bank charter. These issues are exactly what we are committing to avoid -- and, indeed, our decision to delay opening the bank so we can replace our original BSA/AML/OFAC vendor

(Temenos FCM) with a more reliable one (Palantir's Foundry) was done in the spirit of avoiding compliance violations of the type addressed in the OCC action today. From the beginning, one of our primary focuses has been on ensuring compliance with our BSA/AML obligations (both fiat and digital asset) and the choice of Foundry, which is not only best-in-class but also integrates closely with Chainalysis, is but one reflection of that focus.

You will see our BSA program addressed in the next 2-3 Board meetings in late April through May. Our work with Crowe has begun (e.g., Crowe has our draft BSA Policy for review and comment now). As mentioned to Judith, we engaged Crowe for an independent review of our Compliance program that will be completed before we launch in June. Additionally, as you know, our Board has already approved the BSA/AML Committee's charter, and that Committee will be formally constituted in May.

As always, let us know if you have any questions. Cheers

On Wed, Apr 13, 2022 at 11:58 AM Crouch, Ross <ross.crouch@kc.frb.org> wrote:
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Hi Caitlin,

Thank you for the updates. I passed that information along. My understanding is that further communication is forthcoming as a follow up to your March 24th meeting and to schedule a follow up discussion.

Thanks,

Ross

From: Caitlin Long <caitlin@avantibank.com>
Sent: Tuesday, April 12, 2022 5:46 PM
To: Crouch, Ross <ross.crouch@kc.frb.org>; Baxter, Ashle <Ashle.Baxter@kc.frb.org>
Cc: Chuck Thompson <chuck@avantibank.com>; Mike Borges <mike.borges@avantibank.com>; Zev Shimko <zev@avantibank.com>
Subject: [External] Custodia

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Hi Ross & Ashle -- I'm not sure whether Custodia is still supposed to give you updates, given the disappointing meeting we had with President George on March 24th and given that we're no longer having check-in meetings, but just in case you're still working on our application I wanted to let you know we're making a personnel move before we do it. The Wyoming Division of Banking has approved appointing Zev Shimko, our current COO, to the additional role of President. The President role had been vacant previously, and Zev has earned the promotion in spades. His title will be President and COO.

Thanks